

MM Draft Dated as of August ~~October~~ 16, 2001 - 12:00 p.m.

## AGREEMENT AND PLAN OF MERGER

*By and Among*

Atlantic,  
A \_\_\_\_\_ For Profit Corporation,

CareFirst, Inc.,  
A Maryland Not-For-Profit Corporation

*and*

CF Acquisition Corp.,  
A Maryland Corporation

## TABLE OF CONTENTS

AGREEMENT AND PLAN OF MERGER .....	1
ARTICLE I.....	1
Definitions.....	1
ARTICLE II.....	2
The Merger.....	2
Section 2.1. The Merger.....	2
Section 2.2. Effective Time.....	2
Section 2.3. Charter.....	2
Section 2.4. Bylaws.....	2
Section 2.5. Directors, Officers and Name of CareFirst.....	2
ARTICLE III .....	3
<del>Conversion of Shares; Purchase Price</del>	
<u>CONVERSION OF SHARES; PURCHASE PRICE; Effects Of The Merger</u> <u>EFFECTS OF THE MERGER</u> ..	3
Section 3.1. Conversion of Shares; Purchase Price.....	3
Section 3.2. Effects of the Merger.....	3
ARTICLE IV.....	3
<del>Representations And Warranties Of CareFirst</del>	
<u>REPRESENTATIONS AND WARRANTIES OF CAREFIRST</u> .....	3
Section 4.1. Organization, Qualification and Authorization.....	3
Section 4.2. Authority.....	4
Section 4.3. Execution and Binding Effect.....	5
Section 4.4. No Violation; Consents and Approvals.....	5
Section 4.5. Financial Statements.....	6
Section 4.6. Reserves.....	6
Section 4.7. Taxes.....	7
Section 4.8. Absence of Certain Changes or Events.....	8
Section 4.9. Litigation; Judicial Proceedings.....	8
Section 4.10. Compliance with Law.....	8
Section 4.11. Certain Contracts and Commitments.....	9
Section 4.12. Employee Plans; ERISA; Labor Matters.....	9
Section 4.13. Capital Stock.....	12
Section 4.14. Brokers and Finders.....	12
Section 4.15. Environmental Matters.....	12
Section 4.16. Non-competition Agreements.....	14
Section 4.17. Resale Registration Statement; Purchaser's Proxy Statement.....	14
Section 4.20. Real and Personal Property.....	15
<u>Section 4.21. Indebtedness.....</u>	<u>15</u>
<u>Section 4.22. Disclosure.....</u>	<u>15</u>
ARTICLE V .....	1516

*Representations And Warranties Of Purchaser And*

<b>REPRESENTATIONS AND WARRANTIES OF PURCHASER AND CFAC .....</b>	<b><u>1516</u></b>
---	--------------------

Section 5.1. Organization, Qualification and Authorization .....	<u>16</u>
Section 5.2. Authority .....	<u>1617</u>
Section 5.3. Execution and Binding Effect .....	<u>1617</u>
Section 5.4. No Violation; Consents and Approvals .....	<u>1718</u>
Section 5.5. Capitalization; Valid Issuance .....	<u>18</u>
Section 5.6. SEC Filings; Financial Statements .....	<u>19</u>
Section 5.7. Reserves .....	<u>20</u>
Section 5.8. Taxes .....	<u>2021</u>
Section 5.9. Resale Registration Statement; Purchaser's Proxy Statement .....	<u>21</u>
Section 5.10. Absence of Certain Changes or Events .....	<u>21</u>
Section 5.11. Litigation; Judicial Proceedings .....	<u>2222</u>
Section 5.12. Compliance with Law .....	<u>22</u>
Section 5.13. Employee Plans .....	<u>22</u>
Section 5.14. Brokers and Finders .....	<u>2223</u>
Section 5.15. Financing .....	<u>23</u>
<u>Section 5.16. Disclosure .....</u>	<u>2223</u>

<b>ARTICLE VI .....</b>	<b><u>2223</u></b>
-------------------------	--------------------

<b>Covenants Of The Parties .....</b>	<b><u>2223</u></b>
Section 6.1. Pre-Closing Operations .....	<u>2526</u>
Section 6.2. New Information; Access .....	<u>2627</u>
Section 6.3. Transfer Taxes .....	<u>2627</u>
Section 6.4. Preparation of Supporting Documents .....	<u>2628</u>
Section 6.5. Purchaser's Shareholders' Meetings .....	<u>2728</u>
Section 6.6. SEC and Shareholder Filings .....	<u>2728</u>
Section 6.7. Consents, Waivers, Authorizations, etc. ....	<u>2728</u>
Section 6.8. <u>Process for Approval of Conversion of Primary CareFirst Companies and Merger</u> .....	<u>2830</u>
Section 6.9. Liability; Indemnification .....	<u>2930</u>
Section 6.10. Hart-Scott-Rodino Notification .....	<u>2931</u>
Section 6.11. Further Assurances .....	<u>3032</u>
Section 6.12. Public Announcements .....	<u>3032</u>
Section 6.13. Appointment of Directors of Purchaser .....	<u>3032</u>
Section 6.14. Non-Solicitation .....	<u>3133</u>
Section 6.15. Resale Registration Statement .....	<u>3134</u>
Section 6.16. Transaction Objectives .....	<u>3234</u>
Section 6.17. Advisory Boards .....	<u>3234</u>
Section 6.18. Management Responsibility .....	<u>34</u>
Section 6.19. Employee Benefits .....	<u>3235</u>
<u>Section 6.20. CareFirst Financial Information .....</u>	<u>3235</u>

<b>ARTICLE VII .....</b>	<b><u>3235</u></b>
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<b>Conditions .....</b>	<b><u>3235</u></b>
Section 7.1. Conditions to Each Party's Obligations .....	<u>3336</u>
Section 7.2. Conditions to Obligations of CareFirst .....	<u>3437</u>
Section 7.3. Conditions to Obligations of Purchaser and CFAC .....	<u>3538</u>

<b>ARTICLE VIII .....</b>	<b><u>3538</u></b>
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<b>Termination Prior To Closing .....</b>	<b><u>3538</u></b>
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Section 8.1. Termination of Agreement.....	3538
Section 8.2. Termination of Obligations; Liquidated Damages.....	3740
ARTICLE IX.....	3741
Miscellaneous.....	3741
Section 9.1. Entire Agreement.....	3841
Section 9.2. Amendment.....	3841
Section 9.3. Parties Bound by Agreement; Successors and Assigns.....	3841
Section 9.4. Counterparts.....	3841
Section 9.5. Modification and Waiver.....	3842
Section 9.6. Expenses.....	3842
Section 9.7. Survival of Representations and Warranties.....	3942
Section 9.8. Notices.....	4043
Section 9.9. Governing Law.....	4043
Section 9.10. Rules of Construction.....	4144
Section 9.11. Waiver of Jury Trial.....	4246
Appendix A.....	4246
PRINCIPAL TERMS OF PLAN OF CONVERSION.....	4246

#### APPENDICES

- A - Principal Terms of Plan of Conversion
- B - Definitions
- C - Articles of Merger
- D - Form of Charter of CareFirst
- E - Form of Bylaws of CareFirst
- F - Voting Trust Agreement
- G - Primary Filings
- H - Plan of Conversion

## AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "Agreement") is dated as of August \_\_, 2001, by and among Atlantic, a \_\_\_\_\_ for-profit corporation ("Purchaser"), CareFirst, Inc., a Maryland not-for-profit corporation ("CareFirst"), and CF Acquisition Corp., a Maryland corporation ("CFAC").

### RECITALS

1. Purchaser directly owns all of the issued and outstanding stock of CFAC;
2. The Board of Directors of each of Purchaser, CareFirst and CFAC ~~(a) have approved the merger of CFAC with and into CareFirst upon the terms and subject to the conditions of this Agreement, including the ancillary agreements executed and delivered pursuant hereto and (b) The Board of Directors of CareFirst deems such merger to be in the best interests of CareFirst and its subscribers [members], and the Boards of Directors of Purchaser and CF Acquisition Corp. deem such merger to be in the best interests of their respective companies and subscribers, and, in the case of Purchaser and CFAC, their respective~~ shareholders;
3. Because Purchaser is a for-profit company and CareFirst and the Primary CareFirst Insurers are each not-for-profit companies, it will be necessary for the Primary CareFirst Companies to convert to for-profit status concurrently with the consummation of such merger, and as part of the conversion of the Primary CareFirst Companies, CareFirst will issue 100% of its outstanding shares of capital stock ("CareFirst Common Stock") to certain tax-exempt entities (each, a "Tax-Exempt Entity") to be designated in accordance with applicable laws, so that, immediately prior to the merger, the Tax-Exempt Entities will constitute all of the stockholders of CareFirst. The principal elements of such conversion are as set forth in Appendix A hereto; and;
4. Purchaser and CareFirst desire to enter into this Agreement and to make certain representations, warranties, covenants and agreements in connection with the Merger.

NOW THEREFORE, in consideration of the premises and the mutual representations, warranties, covenants and agreements set forth herein, the parties hereto agree as follows:

### ARTICLE I

#### *Definitions*

Terms used in this Agreement not otherwise defined herein shall have the meanings set forth in Appendix B.

*Memorandum*

TRIGON 

## CareFirst Diligence Visits

While we would defer to the judgement of CareFirst regarding the visits that would best be made to garner support for a potential transaction, at a minimum we would want to gauge the understanding and support of the following office holders.

### ¶ Maryland

- Governor
- Attorney General
- Commissioner of Insurance
- Senate President
- Speaker of House

### ¶ District of Columbia

- Congressional Representative
- Mayor
- Commissioner of Insurance
- Corporation Counsel

### ¶ Delaware

- Governor
- Attorney General
- Commissioner of Insurance

### ¶ Virginia

- Governor
- Attorney General
- Commissioner of Insurance

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## CareFirst / Trigon Partnership Summary of Key Business Terms

Transaction	Trigon shall acquire 100% of the CareFirst Common Stock (the "Transaction") for aggregate consideration of \$1.3 billion ("Aggregate Purchase Price"). The Conversion shall be structured as a tax-free reorganization, and the parties shall receive an appropriate tax ruling.
Consideration	We propose that the aggregate consideration paid by Trigon for 100% of the CareFirst Common Stock (the "Aggregate Consideration") shall be structured 60% in cash and 40% in Trigon stock. We are, however, flexible with respect to the mix of consideration
Stock Component	A fixed price method shall be employed to determine the \$520 million stock component, subject to a maximum issuance of 10.4 million shares of Trigon stock. This is not a walk-away. To the extent that Trigon's stock price declined below \$50, then the value of the stock component would be reduced. Trigon would thus bear the burden of the first 22% decline in its stock price from today's value, and CareFirst and Trigon would share the impact of any decline thereafter.
Registration Rights	Trigon is committed to assisting the Tax Exempt Entities with the orderly liquidation of their equity holdings. We will cooperate with the Tax Exempt Entities in registering and marketing their shares, subject to the market's reasonable ability to absorb the volume and appropriate provisions limiting registration during certain periods. The Tax Exempt Entities shall be entitled to mutually agreeable demand registrations and piggyback rights.
Voting Trust	Any Tax Exempt Entity that owns more than 5% of Trigon stock will enter into a voting trust agreement reflecting the voting, standstill, and sell down provisions as mutually agreed upon by the BCBSA, the Tax Exempt Entity and Trigon.
Financing	We are confident that we can finance the cash portion of the Aggregate Consideration with existing cash and existing or new debt facilities.
Material Adverse Change	We would propose a standard Material Adverse Change provision.
Executive Presence	Trigon HealthCare, Inc. will remain a Virginia corporation. Tom Snead expects to spend a majority of his time in Owings Mills and will maintain an office there as will other senior executive officers. Mr. Snead would establish a second residence in Baltimore.
Board Representation	The CEO of CareFirst and four members of the CareFirst Board of Directors, to be mutually agreed upon by CareFirst and Trigon, shall be appointed to the Board of Directors of Trigon HealthCare, Inc. at closing. The location of Board meetings would be determined by the Chairman, in consultation with rest of the Board.

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Existing Boards of Directors

It is our intention to preserve the roles of the existing Boards of Directors of CareFirst of Maryland, DC and Delaware as Advisory Boards, and we would be grateful if the current members of these boards would continue to serve the Company and the community by providing advice and counsel on issues of service, provider policy, member satisfaction, and health care quality, in addition to providing input and feedback with respect to our local market integration plans and community relations programs.

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Non-Solicitation

We would ask that CareFirst not, directly or indirectly, solicit, initiate, encourage, or induce any Acquisition Proposal with respect to CareFirst or engage in negotiations with, or disclose any nonpublic information relating to CareFirst to any Person that may be considering making, or has made, an Acquisition Proposal with respect to CareFirst.

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Transaction Protection

We would receive appropriate transaction protection mechanisms, including a right to match any subsequent competing offer deemed superior from a fiduciary point of view, and a proposal that if the transaction terminates due to no fault of Trigon and CareFirst enters into a Definitive Agreement with another party within two years following termination, then CareFirst would pay to Trigon a termination fee of 5% of the purchase price in recognition of its substantial investment.

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Expense Reimbursement

While both CareFirst and Trigon will bear liability for their own expenses associated with this Transaction, our conversion experience suggests that we are likely to bear substantial expenses on behalf of third parties involved in the approval process. We would expect that in the event that the transaction terminates due to no fault of Trigon, that we be reimbursed for 50 percent of these extraordinary third party expenses.

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Termination provisions

The initial term of this agreement would be eighteen months, unless extended by mutual consent of CareFirst and Trigon.

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Corporate names

We are committed to whatever corporate branding approach makes the best business sense. Choosing a single name under which to market BCBS coverage in our overlapping markets makes sense. Between signing and closing, the Transition team will market test the CareFirst BCBS and Trigon BCBS names to determine whether either, or a new BCBS trade name, is most effective. We would then transition the preferred market place name on a schedule that makes sense, subject, of course, to appropriate regulatory and BCBSA approval.

The holding company, will continue to trade on the New York Stock Exchange as Trigon HealthCare, Inc. (TGH)

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Commitment to associates

The bulk of the value creation opportunities that we foresee come from growth, not cost reductions. It is our intent and expectation that there will not be any reductions in employment levels. We plan to employ no less than the number of employees presently employed in each of the jurisdictions. To the extent, however, that business conditions change and that the number of employees deviates from that standard, such deviation would have to be approved by our combined Board and fully justified by Bill Jews and Tom Sneed using prudent business judgement.

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Presence

Trigon is sensitive to the issues of local employment and we are committed to



maintaining a continuing presence in the markets in which we compete at a level commensurate with our opportunity.

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Location of employees /  
facilities by state

Trigon shares the CareFirst team's belief that healthcare is a locally delivered business. Trigon is committed to a substantial continuing employee presence in CareFirst's markets. We are confident that the combination of our organizations will ultimately allow us together to create new employment opportunities in our combined markets. Decisions regarding the locations of future operations will be made in consultation with the local Advisory Boards.

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Continued service of  
segments

Our strategy is founded on creating and delivering value to our members at an economic level that allows us to continue investing for growth. For those segments in which we are, together, able to deliver value for members, providers, and shareholders, we expect to see substantial growth. For those segments in which we are unable to create value, we anticipate working with the appropriate regulators, and others to find a constructive solution.

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Continued relationships with  
providers

Trigon is committed to continue building upon CareFirst's strong provider relationships. Our long-standing strategy has been to cultivate, maintain, and improve a broad network of high-quality providers so that we can deliver value for our members. Today, we have the broadest networks in Virginia, with over 95% of physicians and 100% of hospitals voluntarily participating in our networks. We take a long term view of provider partnership, and have in place today hospital contracts with terms of up to twenty years. Working together with CareFirst, we have an opportunity to provide stability and create value for providers throughout the Mid-Atlantic region by offering long term agreements, eliminating administrative hassles, standardizing coverage for their patients and by investing in technology at a level unattainable by either of us independently.

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Confirmatory due diligence /  
list of documents

We would like to refresh our view of value based on the documents we have received to date and through further discussions with you. In addition, we would request the following documents:

- Financial and operational results for the third quarter of 2001, with management discussion and analysis, at the same level provided at the close of the second quarter 2001
- Financial forecast and operational plans for 2002

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Timetable

We are prepared for simultaneous confirmatory due diligence and negotiation of a definitive agreement within 30 days. The critical first step in our diligence process will be working with you in outlining the programmatic approach through which we will jointly ensure the successful completion of this partnership - including the key activities, milestones, and timelines for the negotiation, diligence, communication, filing, multijurisdictional approval and closing of this partnership agreement.

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Approvals

The proposed transaction is also subject to certain other customary items being satisfied prior to consummating a transaction, including the negotiation and execution of a definitive purchase agreement and related documents, and receipt of required Board, shareholder and regulatory approvals.

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